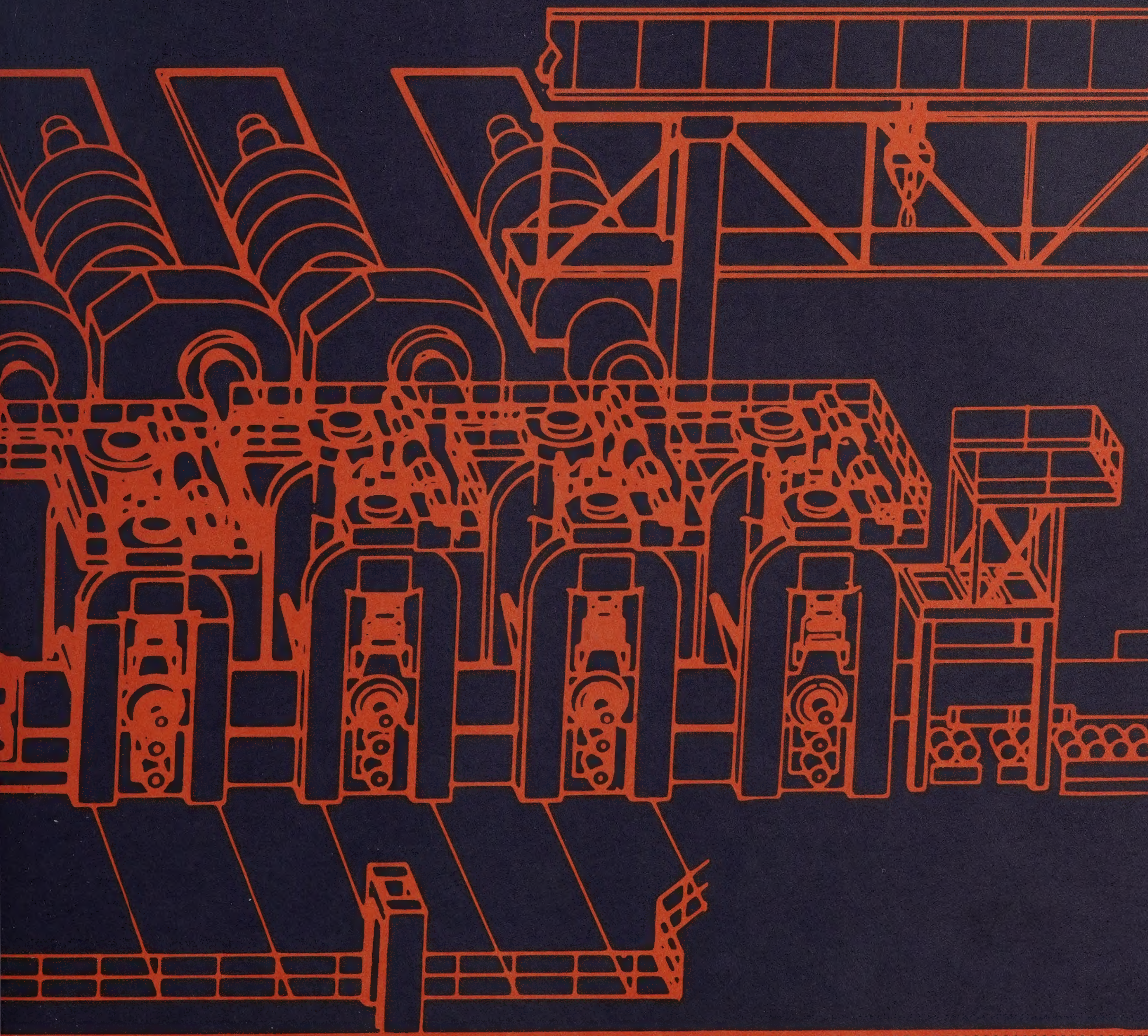
stelco

Annual Report 1982



Contents

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Stelco Inc. was formed in 1910 as The Steel Company of Canada, Limited when several steel companies in Ontario and Quebec merged their operations so that full advantage could be taken of the strides in 20th century steelmaking technology. In 1910, the Corporation accounted for about 10% of the country's steel ingot production. Today, Stelco is Canada's leading steelmaker, producing approximately 35% of the nation's steel.

Cover

A conceptual sketch of the new Lake Erie Works Hot Strip Mill showing the four-stand finishing train on the front cover and the coilbox, developed by Stelco, on the back cover. The huge rolls of the finishing train, driven by 28,000 horsepower, perform the final thickness reductions as the orange-hot transfer bar is rolled into strip steel.

Slated for commissioning during the second quarter of 1983, the new mill will offer customers a broader range of superior quality products in wider, heavier coils. It will help Stelco remain competitive in new and established markets.

A description of the new hot strip mill's operations begins on page 11.

Pour obtenir un exemplaire de la version française de ce rapport veuillez écrire au secrétaire,
Stelco Inc.
C.P. 205, Toronto-Dominion Centre,
Toronto, Ontario, M5K 1J4

stelco

Stelco Inc.

NOTICE OF THE ANNUAL MEETING

Notice is hereby given that the Annual Meeting of the Shareholders of Stelco Inc. will be held at Commerce Hall, Concourse Level, Commerce Court West, King and Bay Streets, in the City of Toronto, Ontario, at the hour of 10:30 a.m., local time, on Monday, April 19, 1982 for the following purposes:

1. to receive the Annual Report of the Directors to the Shareholders and the Financial Statements for the year ended December 31, 1981;

2. to elect Directors;

3. to appoint Auditors; and

4. to transact such other business as may properly be brought before the meeting.

Proxies must be delivered to the Secretary of the Corporation not later than 11:00 a.m., local time, on Friday, April 16, 1982.

Dated at Toronto this 12th day of March, 1982.

By order of the Board of Directors

J. W. Younger, Q.C.
Secretary

IMPORTANT

It is desirable that as many shares as possible be represented at the meeting. If you do not expect to attend, and would like your shares represented, please sign the enclosed proxy and return it as soon as possible in the envelope provided.

Stelco Inc.

Management Proxy Circular

REVOCABILITY OF PROXY

A proxy given pursuant to this solicitation may be revoked under subsection 142 (4) of the Canada Business Corporations Act by instrument in writing executed by the Shareholder or by his attorney authorized in writing and deposited either at the registered office of Stelco Inc. (hereinafter called "the Corporation") at any time up to and including the last business day preceding the day of the meeting, or any adjournment thereof, at which the proxy is to be used, or with the Chairman of such meeting on the day of the meeting or adjournment thereof.

PERSONS MAKING THE SOLICITATION

This solicitation is made by or on behalf of the management of the Corporation for use at the Annual Meeting of the Shareholders of the Corporation to be held on April 19, 1982 (hereinafter called "the Meeting") and at every adjournment thereof. Solicitation will be primarily by mail but proxies may also be solicited personally by regular employees of the Corporation at nominal cost. The cost of solicitation will be borne by the Corporation.

VOTING RIGHTS

On February 15, 1982 there were outstanding 23,770,594 Series A Convertible Common Shares and 1,028,450 Series B Convertible Common Shares (hereinafter referred to collectively as the "Common Shares"); 8,000,000 Preferred Shares Series A; 1,922,300 Preferred Shares Series B; 5,935,170 Convertible Preferred Shares Series C; and 4,303,900 Series D Preferred Shares. The Common Shares together with any additional Common Shares which may be issued by April 19, 1982 are entitled to be voted at the Meeting. Each Shareholder is entitled to one vote for each Common Share registered in his name at the date of the Meeting. The holders of the Preferred Shares Series A, the Preferred Shares Series B, the Convertible Preferred Shares Series C, and the Series D Preferred Shares are not entitled to attend or to vote at the Meeting.

DIRECTORS' AND OFFICERS' LIABILITY INSURANCE

The Corporation provides Directors' and officers' liability insurance with a policy limit of $5,000,000 per occurrence subject to a deductible of $50,000 per occurrence. Under this insurance coverage the Corporation is reimbursed for payments made under corporate indemnity provisions on behalf of its Directors and officers and individual Directors and officers are reimbursed for losses arising during the performance of their duties for which they are not indemnified by the Corporation. Protection is provided to Directors and officers for acts, errors or omissions done or committed during the course of their duties as such. Excluded from coverage under the policy are illegal acts and those acts which result in personal profit. This coverage forms part of the Corporation's general third party liability risk insurance and while no part of the premium chargeable to the Corporation in connection with such coverage is specifically allocated to Directors' and officers' liability insurance, that part of the premium which is estimated to be referrable to such Directors' and officers' liability insurance in the last completed financial year is $12,000 all of which was paid by the Corporation.

PRINCIPAL HOLDERS OF SHARES

Neither the Directors nor officers of the Corporation know of any person or any person and his associates who beneficially owns, or exercises control or direction over, shares carrying more than 10% of the voting rights attached to shares of the Corporation.

APPROVAL OF THE ANNUAL REPORT AND FINANCIAL STATEMENTS

A majority of the votes duly cast at the Annual Meeting in accordance with the by-laws of the Corporation is required for the approval of the Annual Report of the Directors to the Shareholders and the Financial Statements for the last completed financial year.

ELECTION OF DIRECTORS

The affairs of the Corporation are managed by a Board of 15 Directors who are elected annually at each Annual Meeting of Shareholders to hold office until the next Annual Meeting and until their successors shall have been duly elected. The following table sets out the name of each of the persons proposed to be nominated by management for election as a Director, his present principal occupation, all other major positions and offices with the Corporation and any significant affiliate thereof presently held by him, the period or periods of service as a Director of the Corporation and the approximate number of shares of the Corporation that he has advised are beneficially owned by him or over which he exercises control or direction as of February 15, 1982. Each of such persons now is a Director and has served continuously in that capacity since his first election.

Name	Present principal occupation	Director since	Approximate number of shares owned as of February 15, 1982		
			Series A Convertible Common	Series B Convertible Common	Convertible Preferred Series C
*J. D. Allan	President and Chief Operating Officer of the Corporation. Director and President of Stelco Coal Company (holding company), Director and President of Stelco Coal Holding Company (holding company)	1975	1,800		
‡Alex E. Barron	President, Canadian General Investments Limited (closed end investment trust)	1979	1,000		
*A. Jean de Grandpré, O.C., Q.C.	Chairman of the Board and Chief Executive Officer, Bell Canada (telecommunications)	1976	125		
‡Thomas M. Galt	Chairman and Chief Executive Officer, Sun Life Assurance Company of Canada (life insurance)	1980	1,000		
*J. Douglas Gibson, O.B.E.	Corporate Director	1968	2,200		
*J. Peter Gordon	Chairman of the Board and Chief Executive Officer of the Corporation, Director and Chairman of the Board of Stelco Coal Company (holding company), Director and President of Pikeville Coal Co. (holding company), Director and Chairman of Stelco Coal Holding Company (holding company)	1970	5,200		1,000
*A. J. MacIntosh, Q.C.	Partner, Messrs. Blake, Cassels & Graydon, Barristers & Solicitors	1972	250		
†Senator The Hon. Ernest C. Manning, P.C., C.C.	Chairman, Manning Consultants Limited (consultants)	1969	10		
Frederick C. Mannix	Corporate Director	1967		216	
‡†William F. McLean	Director, Canada Packers Inc. (food processing)	1976	100	5,394	
*†D. R. McMaster, Q.C.	Counsel, Messrs. McMaster Meighen, Barrister & Solicitors	1962	54,775		
L. G. Rolland	President and Chief Executive Officer, Rolland inc. (paper products)	1963	100		
Henry G. Thode, C.C., Ph.D., F.R.S.	Professor Emeritus McMaster University	1969	1,000		
†Kenneth A. White, C.D.	Chairman and Chief Executive Officer, Royal Trustco Limited (trust company group)	1974	100		
*William H. Young	President, The Hamilton Group Limited (holding company)	1967	500		

**Member of the Executive Committee*
†Member of the Audit Committee
‡Member of the Compensation and Manpower Resources Committee

If any of the above nominees is for any reason unavailable to serve as a Director, proxies in favour of management will be voted for another nominee in their discretion unless the Shareholder has specified in the proxy that his shares are to be withheld from voting in the election of Directors.

DIRECTORS' AND OFFICERS' REMUNERATION

Nature of remuneration earned

	Directors' Fees	Salaries	Bonuses	Non-accountable expense allowance	Other	Total
REMUNERATION OF DIRECTORS AS SUCH (A) Number of Directors: 15 (B) Body Corporate incurring the expense: Stelco Inc.	$138,425	Nil	Nil	Nil	Nil	$ 138,425
REMUNERATION OF OFFICERS AS SUCH (A) Number of officers: 14 (B) Body Corporate incurring the expense: Stelco Inc.	Nil	$1,627,561	$255,000	Nil	Nil	$1,882,561
TOTALS	$138,425	$1,627,561	$255,000	Nil	Nil	$2,020,986

The estimated aggregate cost to the Corporation and its subsidiaries in the last completed financial year of all benefits proposed to be paid under any pension or retirement plan upon retirement at normal retirement age to Directors and officers of the Corporation and each affiliate of the Corporation as a group: $204,817.

Aggregate of all remuneration payments other than those referred to above made during the Corporation's last completed financial year and proposed to be made in the future by the Corporation or any of its subsidiaries pursuant to an existing plan to the Directors and officers of the Corporation and each affiliate of the Corporation: Nil

INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

The management of the Corporation is not aware of any material interest of any Director or officer of the Corporation, any proposed management nominee for election as a Director of the Corporation or any associate or affiliate of any such person in any transaction since the beginning of the last completed financial year of the Corporation or in any proposed transaction that has materially affected or will materially affect the Corporation or any of its affiliates within the meaning of Section 35 (w) of the Canada Business Corporations Act Regulations.

GENERAL

Shares represented by properly executed proxies in favour of the persons designated in the enclosed form will be voted for the election of Directors and the appointment of Auditors or withheld from voting if so indicated by the Shareholder on the form of proxy. Where the Shareholder executing a proxy specifies a choice with respect to any matter to be acted upon at the Meeting, other than the election of Directors and the reappointment of Thorne Riddell as Auditors, such shares will be voted in accordance with any specification so made. In the absence of such specification such shares will be voted for the approval of the Annual Report of the Directors to the Shareholders and the Financial Statements for the year ended December 31, 1981.

The enclosed proxy confers discretionary authority upon the persons named therein with respect to amendments or variations to matters identified in the Notice of Meeting and other matters which may properly come before the Meeting. At the date of this Circular, the management of the Corporation is not aware that any such amendments, variations or other matters are to be presented for action at the Meeting.

A proxy to be used at the Meeting must be deposited with the Secretary of the Corporation not later than 11:00 a.m., local time, on Friday, April 16, 1982.

The contents and the sending of this Circular have been approved by the Directors of the Corporation.

Toronto, Ontario
as of February 15, 1982.

J. W. Younger, Q.C.
Secretary

Stelco Inc.

Toronto, Canada

stelco

Annual Report 1982

(Year ended December 31, 1982)

Highlights

Dollars in millions except as indicated*			1982	1981	% Change Increase (Decrease)
Financial					
Sales		$	**2,020.3**	2,173.8	(7)
Net Income (Loss)		$	**(40.8)**	82.8	(149)
Per cent of sales		%	**(2.0)**	3.8	
† Per common share —		*$	**(3.69)**	1.45	
	— fully diluted	*$	**N/A**	N/A	
Dividends declared	— preferred	$	**51.1**	47.7	7
	— common	$	**24.8**	49.5	(50)
Per common share		*$	**1.00**	2.00	
Common shareholders' equity		$	**925.5**	1,042.5	(11)
Per common share		*$	**37.25**	42.07	
Capital expenditures		$	**163.2**	210.2	(22)
Depreciation		$	**101.0**	93.6	8
Operations					
Materials and services bought and used		$	**1,189.3**	1,312.2	(9)
Total employment costs		$	**799.7**	674.6	19
Average number of employees			**22,104**	26,263	(16)
Raw steel produced — thousands of net tons			**4,592**	4,454	3
Steel shipments — thousands of net tons			**3,575**	3,804	(6)
Distribution of Total Revenue					
Purchases of goods, supplies and services		%	**56**	56	
Wages, salaries and employee benefits		%	**38**	30	
Depreciation		%	**5**	4	
Interest on long-term debt		%	**3**	3	
Federal, provincial and municipal taxes					
— income taxes		%	**(3)**	1	
— other taxes		%	**3**	3	
Dividends		%	**4**	4	
Earnings withdrawn from the business		%	**(6)**	(1)	
		%	**100**	100	

†After preferred dividends. (See Note 1 on page 21 for explanation of computation of net income (loss) per common share.)

A report from the Chairman of the Board

In 1982, practically all steel consuming markets fell victim to the prolonged world-wide recession and, as the deterioration accelerated during the year, the Canadian steel industry was forced to curtail production severely, shut down some plants and lay off employees for extended periods of time. By year end, the Canadian industry was operating at less than 50% of its capacity and most companies were experiencing operating losses. Canadian raw steel production for the year was 13.0 million tons, 19% below that in 1981 and domestic shipments fell to 7.6 million tons from 11.0 million tons. In order to maintain volume and employment the mills booked large, but generally less profitable tonnages of overseas business, with the result that direct mill exports for the year rose to 2.8 million tons from 2.2 million tons in 1981. Imports of rolled steel products at 1.0 million tons represented 11.6% of 1982 apparent Canadian consumption.

Stelco's Circumstances in 1982

It is no exaggeration to say that the year was traumatic for Stelco. The 1981 strike caused the Corporation to lose market share. While this largely had been recovered by mid-year, major domestic markets, including automotive, construction, rail-car building and the energy sector weakened substantially as the year progressed. Sales volume for almost all products declined drastically and operations had to be scaled back at the primary and finishing plants.

At year end, almost 7,000 bargaining unit and salaried employees, representing about 30% of the Corporation's workforce, were on lay-off — a condition unparalleled since the 1930's. Steelmaking at Hilton Works was below 40% of capacity in the fourth quarter and the open hearth shop, two blast furnaces and No. 1 Bloom & Billet Mill were temporarily shut down.

Net sales for the year declined to \$2.0 billion, \$154 million below 1981's strike-affected results. The Corporation experienced a net loss of \$40.8 million, or \$91.9 million after the declaration of preferred dividends. This was the first yearly loss ever experienced since incorporation in 1910. The result has been a reduction in working capital, an erosion of financial strength, and an interruption in Stelco's traditional growth pattern.

Strategy Adopted

Late in 1981 after the settlement of the strikes, Stelco management initiated a comprehensive review of the Corporation's strategy for the 1980's. It was perceived that the recession might well be the precursor of a period of slower global economic growth than had been visualized previously and that there could be a long-term contraction of demand for steel products in certain markets that were undergoing rationalization. As well, severe competitive pressures were seen to be building in the North American and overseas steel industries.

This strategy review proposed specific plans to address the changed environment in which the Corporation will be functioning, and as well, confirmed that basic priorities should continue to be to conserve the Corporation's resources, optimize existing assets, effect cost reductions and enhance employee relations.

Continuing deterioration of the economy as 1982 progressed made it necessary for the Corporation to adopt short-term tactical measures to cope with conditions. These measures concentrated on the reduction of costs and the conservation of cash. Every aspect of our business was examined with a view to controlling or eliminating costs to offset the impact of low sales volume and eroding prices. Salaries of all non-bargaining unit employees were constrained and an early retirement option was offered. Inventories of raw materials were reduced significantly. Capital expenditures for new facilities were curtailed to the point that the only major spending program underway is the new Hot Strip Mill at Lake Erie Works, scheduled to start up in the second quarter of 1983. The quarterly dividend to common shareholders was reduced from 45¢ to 25¢ and the year-end extra distribution was omitted.

The Future of the Canadian Steel Industry

In times like the present, the viability of the Canadian steel industry and the prospects for its future quite naturally are questioned. Despite fundamental changes underway in some steel consuming sectors — most notably automotive, where downsizing has implications for reduced steel use — and increasing threats from foreign steel producers and alternative materials, there is little doubt that the industry's current problems relate mainly to the recession rather than to inherent structural weaknesses. In our view, while it may take some time to overcome present difficulties there will always be opportunities for efficient Canadian steelmakers. Stelco intends to be foremost among these.

World Steel and Economic Conditions

Currently, the world steel industry is in a state of chaos characterized by plant shutdowns, underutilization of capacity, high unemployment and fierce price competition. Steel profits were a global rarity in 1982. Western world steel consumption at 436.6 million tons was down 13% from 1981. The International Iron and Steel Institute's forecast of 440.8 million tons for 1983, which is probably optimistic, is based more on inventory replenishment, than on any significant rise in consumption. In effect, world steel markets are an economic battleground where the existing multi-lateral trading system is in danger of breaking down as self-serving protectionism emerges as an increasingly potent and dangerous force. This is taking place within a fragile international framework of general economic malaise exemplified by oil oversupply and hence production and price uncertainties, by serious liquidity problems and third world debt difficulties and by exchange rate volatility. Near-term solutions for the world steel industry are not at hand.

One senses that the structure of the world economy is undergoing radical and fundamental change, as industrial power is shifted away from North America towards Japan and the newly industrialized countries. Some evidence of this is to be seen in the rationalization that is taking place in the U.S. steel industry

which in the second half of 1982 operated at less than 50% of capacity and which is moving inexorably towards the permanent closing of many older facilities.

The Canadian Public Policy Requirement

The economic developments of 1981 and 1982 have devastated Canadian manufacturing, and many industries are now at a point where their very survival is at stake. It has become increasingly apparent that a cyclical business recovery will not provide a lasting remedy for the many deep-seated industrial problems in this country. Concerted and coordinated programs of public policy must be developed to ensure the future stability of manufacturing in Canada which in many respects is entering a new era of international competition.

The combative, adversarial relationship between governments, business and labour which has persisted in recent years cannot continue and must be replaced by mutual trust and a workable consultative process. The role of government should be to create and support a predictable and stable economic climate in which private enterprise can function and grow with confidence. The dominant Canadian economic priorities which must be addressed immediately are:

□ control of inflation which involves
— reduction of government deficits
— wage moderation
— stable tax incentives to promote long-term investment
— reduction of regulatory burdens of all types

□ productivity improvement which will work to
— restore confidence
— improve Canadian competitiveness in world markets and, greatest of all importance,
— reduce unemployment.

The time clearly has come for innovation in the formulation and prompt implementation of public policies to complement the strategic planning efforts of the private sector. Equally important, basic optimism about the future of Canada must not be allowed to flag in the face of our immediate difficulties. Canadians must disassociate themselves from predictions of economic Armageddon.

1983 Outlook

The Canadian economic outlook for 1983 is not robust, beset as it is by many uncertainties relating predominantly to the timing of the recovery in the United States and in overseas countries. The most optimistic view is for a moderate return to growth in the second or third quarter of the year. While unemployment will remain a serious problem for some time, and business capital investment growth has been slowed substantially, significant progress has been made on the inflation and interest rate fronts. Most observers foresee a resumption of consumer buying which will spur activity in a number of industries, most importantly for the steel industry, in the automotive and housing sectors.

The current forecast for 1983 Canadian steel industry shipments is for little change from 1982 when offshore exports accounted for an unusually high proportion of sales. In light of world competitive conditions, this volume of exports is not likely to be repeated. As well, there is increasing pressure from imports in the Canadian market. While the very worst of the recession would appear to be over, major domestic steel markets will not rebound quickly, and 1983 is being viewed not as a year of cure, but one of gradual recuperation for the Canadian steel industry.

Your Directors recognize that the painful events of 1982 imposed unprecedented hardships on the Corporation's employees and shareholders and are most appreciative of their efforts and support. They are also grateful to our customers and suppliers who have shown understanding during these difficult times.

Executive Changes

There were no changes of Directors during the year.

In June, Mr. A. R. McMurrich, Vice-President, Marketing and Corporate Planning retired after 42 years of outstanding service with Stelco. Mr. McMurrich headed the Marketing function of the Corporation since 1967 and achieved wide recognition and respect in the Canadian steel and business communities as well as in the U.S.A. and abroad, where he served on a number of American and International Iron and Steel Institute committees over the years.

Subsequent to his retirement, the following executive changes were made: —

□ Mr. G. H. G. Layt was elected to the newly created position of Senior Vice-President, with responsibility for the Marketing and Operations Divisions.

□ Mr. G. W. R. Bowlby was elected Vice-President, Marketing.

□ Mr. J. E. Hood was elected Vice-President, Operations.

□ Mr. F. A. Hoyle was appointed Vice-President — Manufacturing.

□ Mr. D. A. Woodward was appointed Vice-President — Sales.

Direct responsibility for the corporate planning function was transferred from the Marketing Division to the President and Chief Operating Officer.

Gordon

Chairman of the Board and
Chief Executive Officer

Toronto, March 7, 1983

A report from the President

Sales and production

The severe economic downturn which began in the latter half of 1981 continued during 1982. As a result, domestic demand for steel products was the lowest experienced in many years. Significant tonnages of steel were sold overseas in an attempt to maintain a reasonable level of operations. While competition in international markets seriously reduced the margins obtained, these offshore sales assisted in generating cash flow.

Sales revenue in 1982 was $2,020.3 million, down 7% from $2,173.8 million in 1981. The 1981 revenue figure includes the effect of the 125-day work stoppage at Hilton Works and the shorter shutdowns that took place at Lake Erie Works and certain finishing plants.

Steel shipments of 3,575 thousand tons were down from the 3,804 thousand tons shipped in 1981.

Raw steel production was 4,592 thousand tons and includes 842 thousand tons produced at Lake Erie Works. This is a modest increase from the 4,454 thousand tons produced in the strike year 1981.

Net income (loss)

Net income was adversely affected by the low level of operations, the mix of sales shifting to offshore at reduced margins and the inability to increase domestic prices to cover escalating costs. Consequently the Corporation suffered a consolidated net loss of $40.8 million compared with a consolidated net income of $82.8 million in 1981.

After deducting preferred dividends, the loss per share attributable to the common shareholders was $3.69 compared with earnings of $1.45 per share in 1981.

Your Corporation's unfavourable results are in large measure, a reflection of the widespread recession in the Canadian and world economies. However, the lengthy duration of the strikes experienced at Stelco in 1981 also adversely affected the financial results in the early part of 1982 because customers had committed to other sources of supply. Curtailment of capital spending, substantial layoffs of hourly and salaried personnel, constraints on salaries, a voluntary early retirement plan, a reduction in the common share dividend and other administrative and operating measures were undertaken throughout the year to reduce costs and conserve cash.

Dividends

In view of the serious decline in earnings, in March 1982 your Directors reduced the dividend rate on the Series A and B Convertible Common Shares to 25¢ per share per quarter effective with the May 1, 1982 payment. There was no extra distribution declared in December 1982. As a result of the reduced rate, the dividends declared in 1982 on the Convertible Common Shares (Series A and B) amounted to $24.8 million or $1.00 per share compared to $49.5 million or $2.00 per share in 1981.

Dividends declared on all series of preferred shares amounted to $51.1 million compared to $47.7 million in 1981. The increase results from the inclusion of dividends on the Preferred Shares Series E issued August 10, 1982. This was partially offset by a decline in the dividend rate on the Preferred Shares Series A attributable to the drop in the prime interest rate on which this dividend rate is based, in the latter part of 1982.

Financial position

Capital structure

On July 20 the Corporation sold for public issue 3,400,000 shares of Cumulative Redeemable Preferred Shares Series E at $25.00 each for a total of $85 million. The net proceeds of the issue were used to repay a portion of the Corporation's short-term borrowings and to provide funds for approved capital programs and working capital. Other changes in capital structure were minimal and represented those associated with the declaration of stock dividends applicable to the Series B Convertible Common Shares, the conversion of some Convertible Preferred Shares Series C into Series A Convertible Common Shares and the purchase and cancellation of preferred shares in accordance with the terms of the various issues. (See Note 10 to the Financial Statements commencing on page 23.)

Capital spending

As part of the Corporation's cash conservation measures, 1982 total capital spending was reduced to $163.2 million compared with $210.2 million spent in 1981. Of the total, $154.1 million was for manufacturing and mining facilities and $9.1 million for long-term intercorporate investments. Included in the former figure was $134.3 million spent at Lake Erie Works, mainly for the Hot Strip Mill, and $19.8 million for environmental control, cost reduction and market retention projects at the Corporation's other operations, principally Hilton Works.

Intercorporate investments

Long-term intercorporate investments increased by $3.8 million during 1982 to a total of $78.5 million at year end. The increase represents the excess of the net additional long-term intercorporate investments over remitted equity income.

Working capital

At December 31, 1982 working capital amounted to $625.1 million compared with $791.4 million last year, a reduction of $166.3 million. Cash and short-term investments declined by $204.2 million and inventories were decreased by $103.9 million largely as a result of reduced quantities of raw materials and tighter inventory control policies. Accounts receivable increased by $99.9 million to $262.7 million at year end reflecting the return to more normal circumstances from the unusual conditions prevailing at the end of 1981 as a result of the strikes.

Temporary financing was provided by the sale of short-term notes of which $36.9 million were outstanding at December 31, 1982.

Accounts payable declined $52.4 million to $270.8 million at year end, mainly as a result of lower operating and capital spending levels.

The reduced liability for income and other taxes at $17.4 million reflects an anticipated recovery of income taxes.

The ratio of current assets to current liabilities, was 2.7 to 1 at December 31, 1982, a decline from 3.0 to 1 at the end of 1981. This was largely due to the decreased level of cash and short-term investments and inventories referred to above.

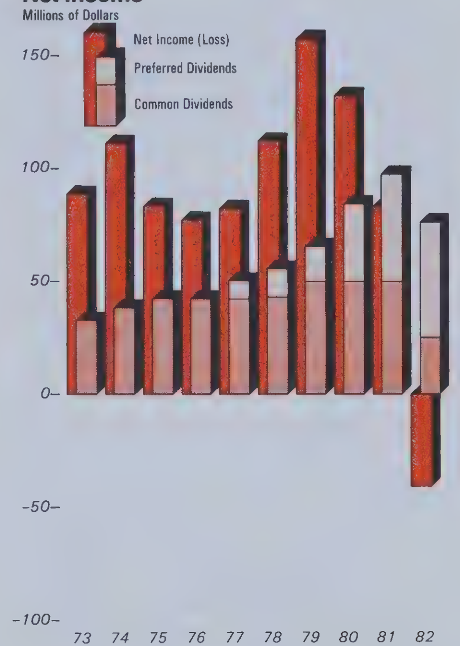
Inflation

Inflation has remained at an unacceptably high level despite some slight reduction in 1982 and continues to distort conventional financial statements which are based on historical costs. The effect may be illustrated by referring to the Corporation's investment in inventories and fixed assets.

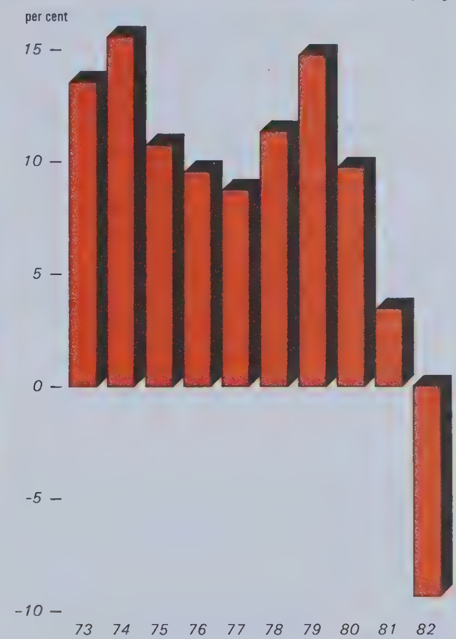
It is estimated that Stelco's investment in inventories increased by $26 million due to inflation in 1982. Similarly, depreciation expense based on the reproduction cost of the Corporation's fixed assets, calculated using Statistics Canada's Implicit Price Indices for Non-Residential Construction and Machinery and Equipment, is estimated to exceed the reported depreciation based on historical cost by $110 million.

The impact of inflation on a corporation's results is a most complex issue and the reader is reminded that there are other factors such as the appreciation of existing fixed assets and the repayment of long-term debt with depreciated dollars which could be considered.

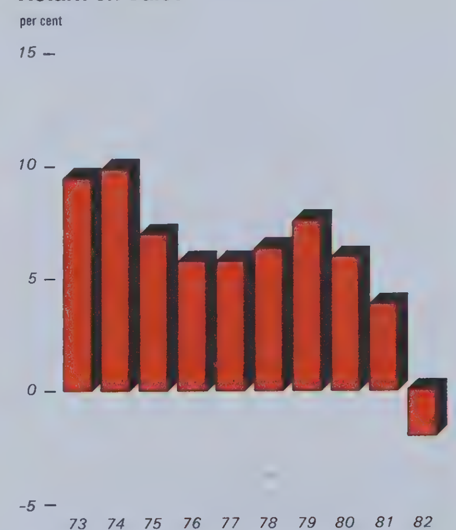
Net Income



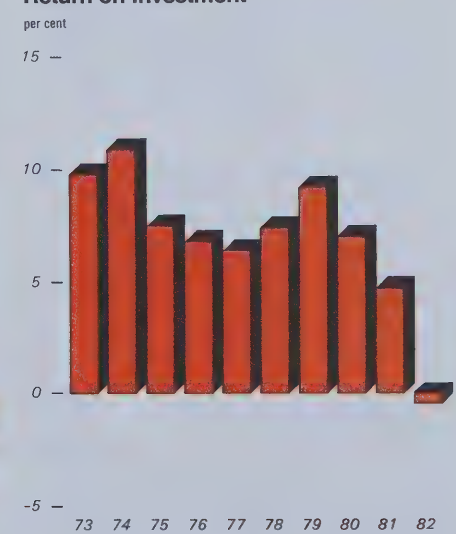
Return on Common Shareholders' Equity



Return on Sales



Return on Investment



Shareholders

There were 29,551 holders of Convertible Common Shares at December 31, 1982 compared with 32,277 the previous year-end. Shareholders with Canadian addresses held approximately 97% of the total shares outstanding compared with 93% last year. We attribute the decline in the number of shareholders to the trend, noted in previous years, toward the concentration of shareholdings in the hands of pension funds, insurance companies and other institutional investors and the increasing use of nominee accounts by individual shareholders.

Corporate planning

Planning activities in general are being directed to analyzing the strengths and weaknesses of our facilities and relating these to marketing priorities. Existing product lines are being scrutinized to ensure that they will continue to make satisfactory profit contributions. The exploration of new technologies and processes for use throughout the Corporation is receiving high priority.

In the medium term the addition of physical facilities for growth purposes will not be a prime consideration and capital spending will be channelled towards improving our present asset base with emphasis on product-quality improvement and cost reduction.

Marketing

1982 was a most difficult marketing year for the Corporation. The general weakness that began with the onset of the recession in the third quarter of 1981 had affected all Stelco's major domestic markets by the first quarter of 1982 and continued throughout the year.

In view of falling domestic demand, it became apparent that offshore tonnage would be needed to keep our primary mills loaded at reasonable levels. The Corporation was successful in booking record volumes of business in overseas markets, mainly for flat rolled products. While these orders yielded inadequate margins, they did improve cash flow and assisted in maintaining employment.

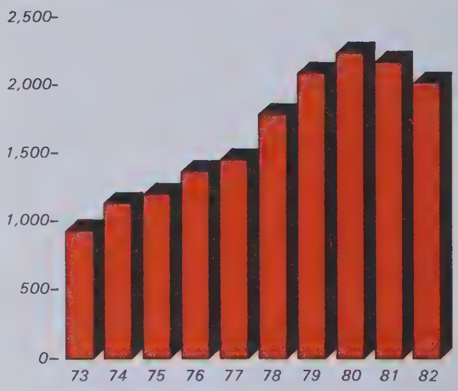
As the year progressed, international steel prices collapsed in the face of deteriorating global demand and excess steel-producing capacities, denying continued satisfactory access to foreign markets beyond the fourth quarter. Chaotic conditions in U.S. steel markets, including fierce price competition among American mills, prevented increased participation in that country. In spite of these conditions, during 1982 Stelco shipped substantial quantities of steel to countries around the world.

As might be expected in these circumstances, Canadian steel markets became more vulnerable to low priced imports from abroad, and, to combat such foreign government-subsidized competition, the Canadian steel industry initiated dumping complaints against several countries on standard pipe and plate and is reviewing similar action for a number of other products.

The inability to offset rising costs by means of price increases brought about an erosion of margins on most Stelco products sold domestically in 1982. Reversal of this trend continued to be a top priority of management.

The Corporation's primary marketing effort continues to be focussed on customer service and product quality with the objective of obtaining an increased share of the Canadian steel market. Stelco will continue to explore U.S. and offshore opportunities. By mid-1983, the new Hot Strip Mill at Lake Erie Works will be in production, providing an important marketing tool in the form of superior quality, increased width range and heavier coil weights.

Sales
Millions of Dollars



Raw materials

Coal

Coal requirements were reduced substantially as a result of low levels of steel production. Inventories decreased moderately from a year earlier due to negotiated reductions of purchases under long-term contracts, the sale of coal from ownership mines and reduced levels of production at all mines, three of which were shut down during the latter part of the year.

In general, efficiency at all mines was higher than in prior years due to improved labour stability.

Chisholm Mine (100% owned): During 1982 the majority of production units and related maintenance and support facilities were transferred to the completed South Side Development. Coal output was below capacity. A major repair to the raw coal silo was carried out in the latter part of the year.

Madison Mine (100% owned): Operating levels were reduced to 50% by a complete shutdown during the last six months of the year. It is expected that partial operations will be resumed early in 1983. A proposed new mine access has been delayed. One third of 1982 production was sold in the open market and is scheduled for shipment during the first half of 1983.

The Beckley, Mathies and Olga mines in which the Corporation has varying ownership interests (see page 29) operated below capacity for most of the year. Operations were suspended commencing in July at Mathies and in October at Olga. Some excess tonnages were sold, mainly in the first half of the year, but additional sales at profitable levels were not possible due to the world-wide reduction in demand for metallurgical coal. It is expected that production at these mines will be resumed early in 1983 at levels sufficient to meet owners' requirements.

The Elk River Coal Project (25% owned): Development of this major project was suspended indefinitely at the end of the third quarter. Resumption of work is dependent on improved demand for metallurgical coal in world markets.

Iron ore

Operating levels of all mines were substantially below capacity as a result of reduced iron ore requirements of the owners. In addition, the Corporation sold some excess tonnage, and renegotiated purchase contract tonnages. The excess inventory position which developed following the strike in 1981 was consequently reduced by about 25%. The remainder will be worked off during 1983 and 1984.

The Griffith Mine (100% owned): Operations were reduced to about 60% of capacity and there was a 12-week shutdown during the summer. The mine will operate at about the same level in 1983. The direct reduction kiln was not operated in 1982.

Wabush Mines, Erie Mining Company, Eveleth Expansion Company, Hibbing Taconite Company and Tilden Iron Ore Partnership, all partially-owned joint ventures and partnerships (see page 29), operated at less than capacity during the year. In 1983 Stelco plans to take less than its ownership share from these operations.

Limestone

Chemical Lime Works (100% owned): Reduced lime and limestone requirements of Hilton and Lake Erie Works resulted in below-capacity operations for most of the year. A new three-year labour agreement was reached with the Energy and Chemical Workers Union in May.

Operations

Hilton Works

The weak market demand throughout the year seriously affected operating levels at Hilton Works. During the first half, steelmaking was about 70% of capacity. In the second half, notwithstanding significant export orders, steelmaking operations were reduced in two stages to less than 40% in the last quarter when No. 3 Open Hearth was completely shut down.

No. 1 Bloom and Billet Mill was also closed in the last quarter and it was necessary to bank "B" Blast Furnace at mid-year. The scheduled reline of "D" Furnace was stretched out and will be completed in the first quarter of 1983. Neither blast furnace will be required until mid-1983, at which time it is expected "E" Furnace will require relining after having produced a tonnage significantly greater than in any previous campaign.

As part of the Corporation's continuing emphasis on quality, the expanded hot metal desulfurization plant was successfully brought on-stream contributing to improved quality steel and service.

The Lance Bubbling Equilibrium Process, reported on last year, has achieved important cost savings. The process will be installed on a second B.O.F. vessel in the first half of 1983.

Modifications made to the 56" Hot Strip Mill in 1980, including the addition of the Stelco coilbox, achieved the planned productivity increases during the year. Changes made to No. 3 Galvanizing Line to produce a minimized-spangle product and a new system of in-line tension levelling and temper rolling have improved galvanized product quality significantly.

Completion of the major modifications to the No. 1 Bar Mill is under review.

Lake Erie Works

All units at this Works have performed in a most satisfactory manner throughout the year. The quality steel produced has been accepted very favourably in the marketplace. Continuously cast slabs are being specified more and more for such critical end-products as bumper bars and two-piece drawn and ironed tinned containers. As well, large tonnages of slabs have been converted to hot and cold rolled sheets, tinplate and galvanized sheets at Hilton Works and various sizes of pipe at both the Welland and Camrose pipe mills. In 1982, major tonnages of continuously cast slabs were sold to United States steel companies.

The new 80" Hot Strip Mill at this Works is scheduled to start up late in the first half of 1983. This computer-controlled mill will be capable of producing coils of hot rolled sheets with gauge tolerance, flatness and metallurgical qualities that will lead the industry. The new mill will permit production of hot rolled sheets in the 51" to 72" range of widths which are beyond the capability of present equipment at Hilton Works. Conversion of these wide coils to 72" cold rolled sheets and 60" galvanized sheets can be accomplished at Hilton Works on existing equipment.

Safety and health

Accident frequency and severity were reduced during the year. New departmental safety records were set at Hilton Works and some of the finishing plants. Employees at Lake Erie Works were recognized by the Industrial Accident Prevention Association for having worked one million man hours without a lost-time accident.

Francization

Two progress reports indicating total compliance with the provisions of the Francization program in the Eastern Region were submitted to L'Office de la langue française. The Corporation has received a certificate attesting to the fact that it is applying a Francization program approved by that body.

Employment Costs Dollars in thousands		**1982**	1981
Wages and Salaries	For time worked	**$602,128**	$516,624
	For vacations and statutory holidays	**56,747**	50,051
		$658,875	$566,675
Supplementary Employment Costs	Pensions	**$ 68,039**	$ 48,073
	Group insurance plans and other benefits	**48,327**	37,049
	Unemployment insurance and workmen's compensation	**24,460**	22,818
		$140,826	$107,940
	Total Employment Costs	**$799,701**	$674,615
	Average Number of Employees	**22,104**	26,263
Employee Benefits	Number of pensioners at year end	**6,154**	5,406
	Pensions paid during the year	**$ 32,998**	$ 26,813
	Life insurance in force at year end	**$827,416**	$865,884
	Death benefits paid during the year	**$ 3,780**	$ 3,574

Technology

Development and selective implementation of improved technology and products have long been functions of Stelco's research, engineering, operating and metallurgical personnel. These activities assumed increased importance during the past year because of poor business conditions and strong competition from offshore steelmakers.

Much activity was directed to maximizing the effectiveness of existing facilities by improving the productivity of operating units, reducing processing costs, increasing yield and improving product quality while minimizing the need for capital spending. The Corporation recognizes that future progress may rely more on technological advances than on physical expansion and for this reason longer-term investigations of promising processes and products are being continued. In addition to the technological developments mentioned in the Operations section of the report, other technological highlights are:

□ A computer-based operator assist program for the Electric Arc Furnace Shop was developed at McMaster Works. The program enables melters to add the minimum amount of alloys to the steel bath consistent with the grade of steel being made, thereby significantly reducing additive and reclassification costs.

□ A new procedure for stirring molten steel with argon gas and making alloy trim additions in the ladle is being developed at Hilton Works Basic Oxygen Furnace Shop. Improved temperature and alloy control will result in better quality steel.

Environmental control

At Lake Erie Works, the biological treatment plant for waste water from the new Coke Oven By-Products Plant started up well and continues to operate efficiently.

Significant expenditures were made in 1982 on the water treatment plant associated with the new Hot Strip Mill at Lake Erie Works. This facility scheduled for start up late in the first half of 1983 includes a large scale pit, filter plant and cooling towers to permit a high degree of recycling and reuse of water at the mill.

At Hilton Works, another new coal charging car was put into operation at the Coke Ovens. It features improved control of emissions during the charging operation and completes the changeover to this more automated equipment.

New regulations were enacted recently in Ontario and Quebec with respect to certain designated substances used in the workplace. In most cases control procedures are already in place to comply with this legislation. As an adjunct to this program, a computerized employee history and exposure record system has been developed, to facilitate retention and simplified access to such information.

J. D. Allan

President and
Chief Operating Officer.

Toronto, March 7, 1983

Lake Erie Works 80″ Hot Strip Mill

stelco

The first stage of the Corporation's Lake Erie Works will be completed in the second quarter of 1983 with the start-up of the 80″ Hot Strip Mill. After 20 million man hours of engineering and construction and a cost of more than 1.1 billion dollars, this works is now in a position to convert much of its slab production into finished products for direct shipment to the marketplace.

In projects of this magnitude the need to be competitive on a global basis is a prime factor in selecting appropriate technology. Both the federal and Ontario governments continue to urge Canadian manufacturers to be in the forefront of equipping their people with the most advanced production facilities possible. The Lake Erie Hot Strip Mill exemplifies Stelco's continuing commitment to the latest technology in production processes and its completion further ensures that Canada's steel industry will continue to be internationally competitive.

The new Hot Strip Mill will enable the Corporation to provide steel products of a quality that is second to none, both for sale to customers in Canada and elsewhere. In addition some of the tonnage can be further processed at Hilton Works where galvanized, cold rolled and tin plate production will benefit from the improved physical properties of hot bands from this new facility.

Dimensional properties not previously available, and increasingly demanded by customers particularly in the automotive, appliance, container and stamping industries, include sheet steel in coils up to 74″ wide. These wider coils will allow access to new markets in Canada and the United States and will be available in a greater range of thicknesses (from .090 inch to .625 inch) and in coil weights to more than 35 tons. Improved metallurgical and physical properties, particularly uniformity and close tolerances, will be possible from this new mill.

Features of the mill which permit the attainment of new standards of hot strip quality include:

□ A computer controlled six zone slab reheating furnace with innovative offset skids which reduce cold spots thereby giving improved gauge control.

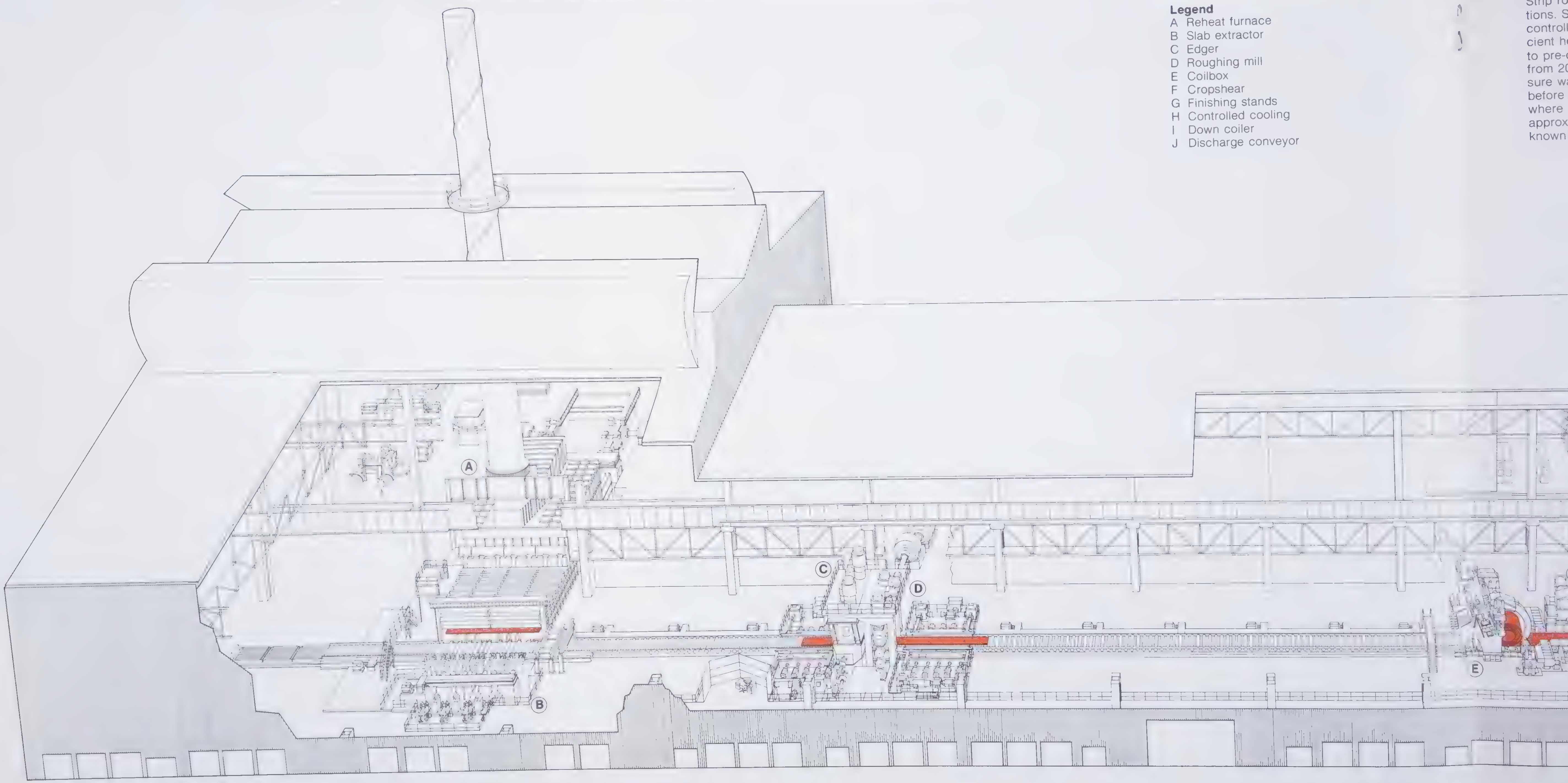
This Lake Erie Works aerial view shows the 1,100 foot building housing the new 80″ Hot Strip Mill scheduled to start-up in the second quarter of 1983. In the background can be seen the B.O.F. and Slab Casting Complex ideally situated to facilitate the transfer of slabs.

□ Stelco's patented coilbox which besides savings in capital cost through permitting a shorter overall mill also saves energy, improves gauge control and contributes to better metallurgical properties because of uniformity of temperature throughout the steel bar.

□ Run out tables equipped with an advanced cooling system employing both laminar flow and curtain-type spray headers. This precisely controlled cooling will result in a metallurgical structure tailor-made to meet the physical specifications of the steel.

The following pages depict additional features of this unique Hot Strip Mill.

Stelco's 80" hot strip mill: the process



Legend
A Reheat furnace
B Slab extractor
C Edger
D Roughing mill
E Coilbox
F Cropshear
G Finishing stands
H Controlled cooling
I Down coiler
J Discharge conveyor

Strip ro
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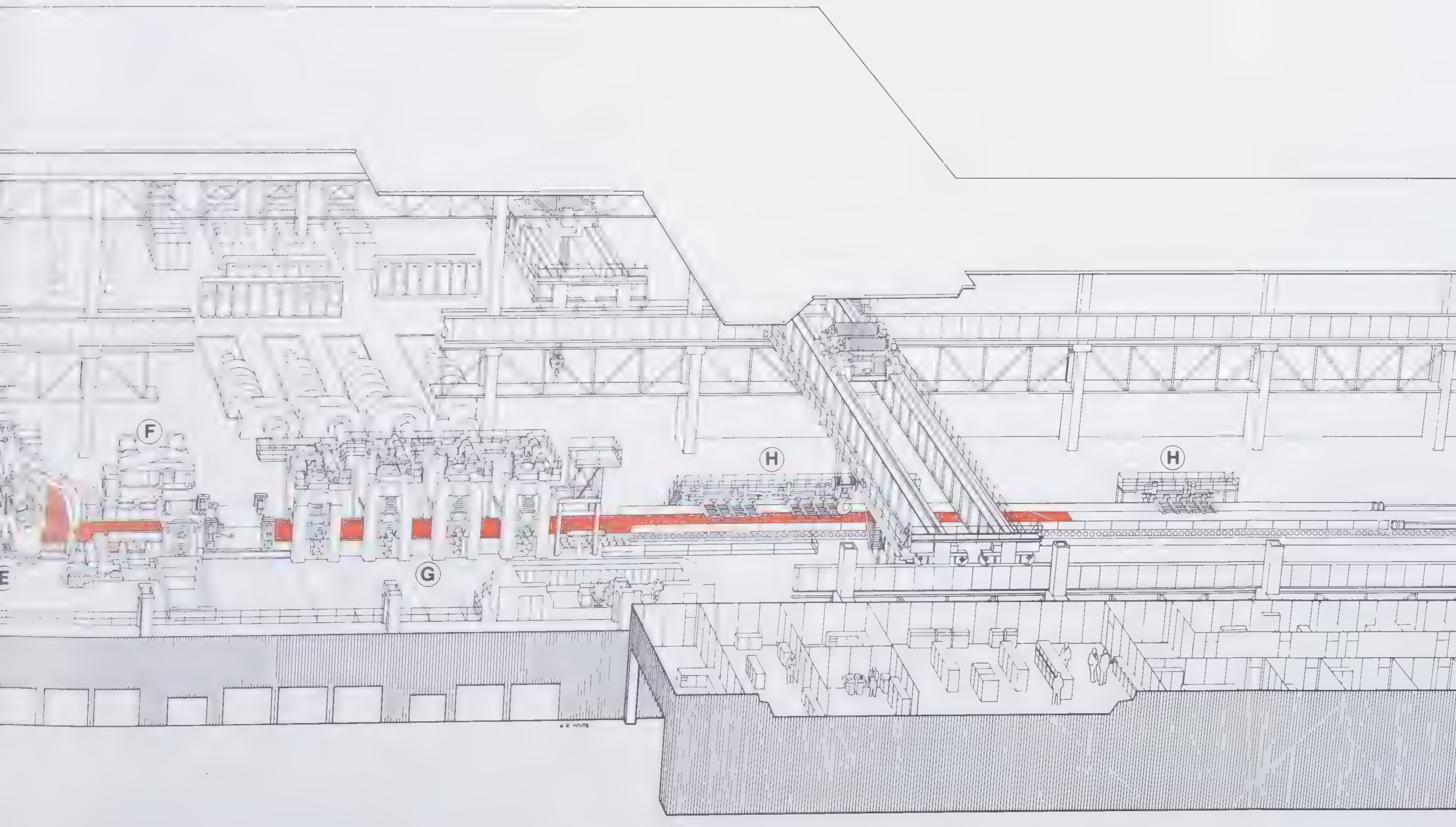
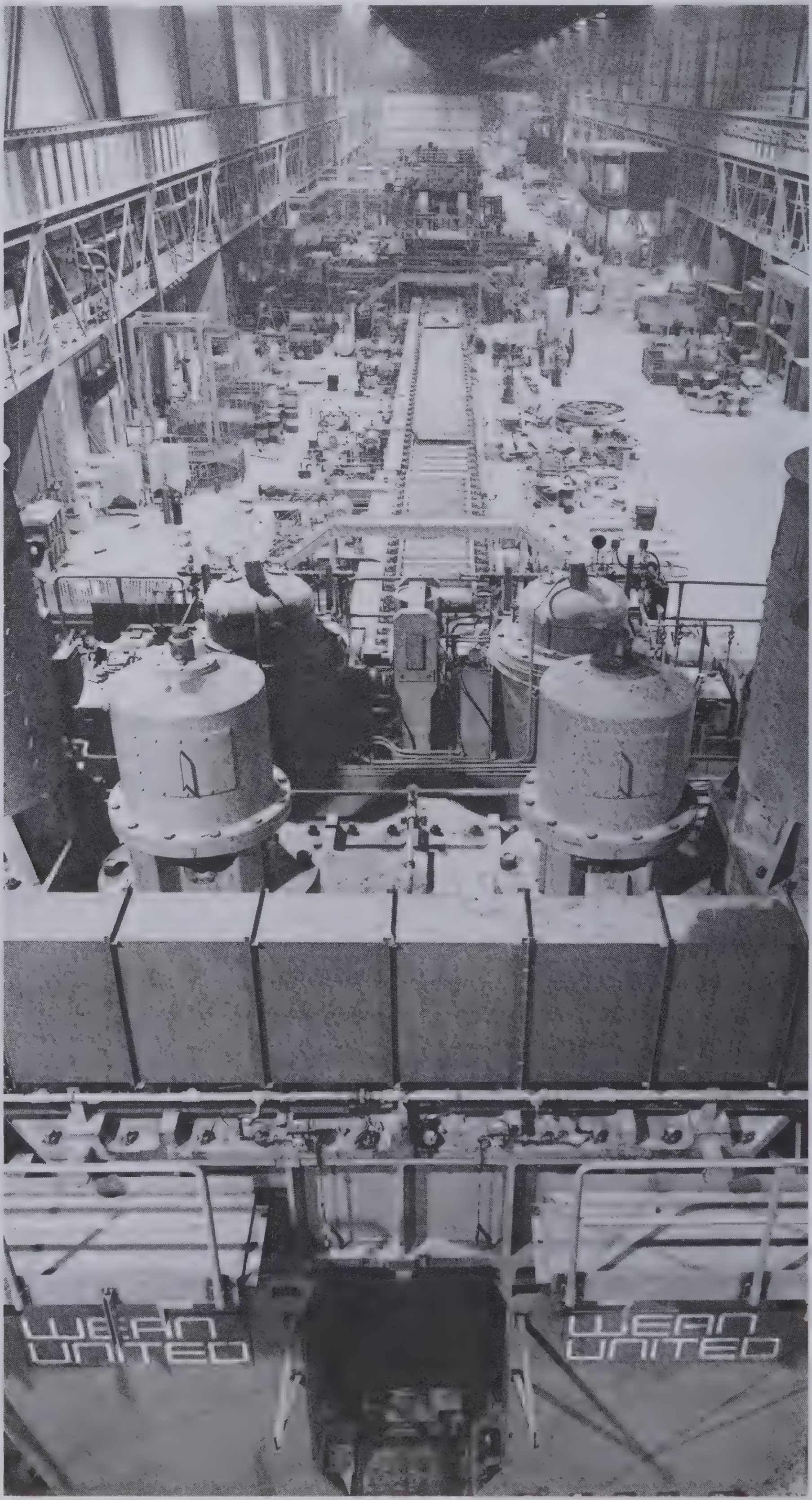
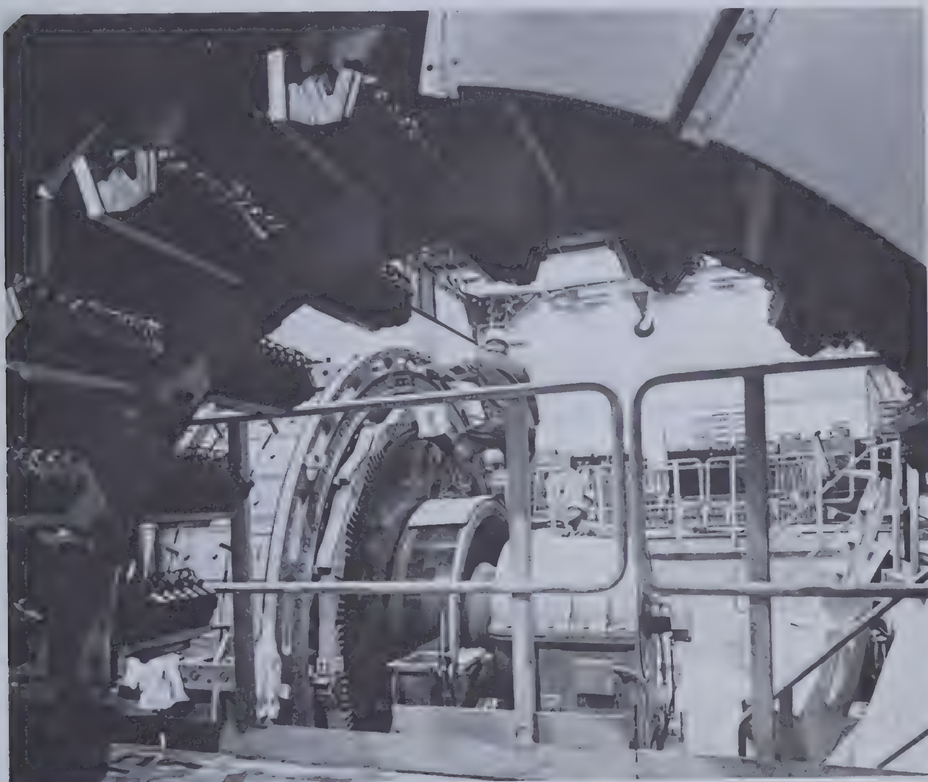
Strip rolling consists of six major operations. Slabs are reheated in a computer controlled furnace which provides efficient heating and significant fuel savings to pre-determined temperatures ranging from 2000° to 2400°F. Next, high pressure water jets remove surface scale before the slab enters the roughing mill where it is reduced in several passes to approximately 1" in thickness. Now known as a transfer bar, the hot steel enters the coilbox where it is coiled to retain its heat. The transfer bar is then uncoiled, sent down the line to the cropshear where the head and tail are removed and finally fed into a series of finishing stands where the final reduction takes place. The four finishing stands feature automatic gauge controls to keep thickness within close tolerances. A computer controlled water cooling system along the run-out table ensures a uniform fine grain metallurgical structure within the strip. Downcoiling takes place on a removable mandrel coiler accurately matched to rolling speeds and finishing temperature requirements. A walking beam off-loading conveyor provides a damage free coil for shipping or storage. Computers monitor the entire process, making instantaneous adjustments to the multitude of rolling variables.



The powerful vertical edger/rougher dominates this view of the 1,100 foot long facility. This heavy duty reversing mill enables the entire product range from this facility to be produced from only twelve sizes of "parent" slabs. In the background can be seen the Stelco-developed coilbox and the four-stand finishing train.





Viewed through its outer housing, one of the two 6,000 horsepower electric motors that drives the roughing mill receives a precommissioning check.

This view from the drive side of the four finishing mill stands shows the reduction gear boxes in the fore-ground. Each of the four stands is equipped with load cells which, along with tension loopers between stands and X-ray gauges at the exit of the mill, provide a modern system for controlling the rolled strip thickness to very close tolerance.

Stelco Inc.

Consolidated Statement of Income and Retained Earnings

Years ended December 31
(Thousands of Dollars)

	1982	1981
Revenue		
Sales	**$2,020,349**	$2,173,775
Equity income (loss) from corporate joint ventures and partnerships (Note 4)	**(2,558)**	3,175
Income from short-term investments	**5,570**	54,706
	2,023,361	2,231,656
Expense		
Cost of sales, exclusive of the following items	**1,821,791**	1,842,077
Administrative and selling	**129,217**	120,284
Research and development	**8,670**	9,352
Depreciation	**101,037**	93,564
Interest on long-term debt	**63,626**	65,368
Other interest	**4,667**	358
Income taxes — current	**(14,493)**	4,679
— deferred	**(50,349)**	13,132
	2,064,166	2,148,814
Net Income (Loss) for the Year	**(40,805)**	82,842
Retained Earnings at beginning of year	**898,912**	913,119
Discount on Preferred Shares Series D (purchased and cancelled — Note 10)	**131**	130
	858,238	996,091
Dividends (Note 10)	**75,939**	97,179
Expenses relating to issue of preferred shares (after deducting income taxes of $1,362)	**1,568**	—
Retained Earnings at end of year	**$ 780,731**	$ 898,912
Net income (loss) per common share (Note 1)	**$(3.69)**	$1.45
Net income (loss) per common share — fully diluted (Note 1)	**N/A**	N/A

Stelco Inc.

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Consolidated Statement of Financial Position

At December 31
(Thousands of Dollars)

	1982	1981
Current Assets		
Cash	$ 11,416	$ 8,029
Short-term investments, at cost (approximates market value)	18,544	226,100
Accounts receivable	262,721	162,869
Inventories (Note 2)	690,439	794,367
Prepaid expenses	3,071	1,979
	986,191	1,193,344
Current Liabilities		
Notes payable	36,934	—
Accounts payable and accrued	270,836	323,236
Income and other taxes	17,426	34,470
Cash dividends payable	20,021	28,139
Long-term debt due within one year (Note 5)	15,867	16,059
	361,084	401,904
Working Capital	625,107	791,440
Other Assets		
Fixed assets, less accumulated depreciation (Note 3)	1,687,474	1,634,928
Long-term intercorporate investments (Note 4)	78,534	74,715
Unamortized long-term debt issue expense	6,111	6,615
	1,772,119	1,716,258
Total Investment	2,397,226	2,507,698
Other Liabilities		
Long-term debt (Note 5)	535,034	558,063
Deferred income taxes	351,201	402,912
	886,235	960,975
Shareholders' Equity	$1,510,991	$1,546,723
Derived from:		
Capital Stock (Note 10)		
Preferred shares	$ 585,501	$ 504,237
Common shares	144,467	142,925
Stock dividend to be issued	292	649
Retained Earnings	780,731	898,912
	$1,510,991	$1,546,723

On behalf of the Board: Gordon Director J D Allan Director

Stelco Inc.

Consolidated Statement of Changes in Financial Position

Years ended December 31
(Thousands of Dollars)

	1982	1981
Source of Working Capital		
Current operations		
Net income (loss)	$ (40,805)	$ 82,842
Depreciation	101,037	93,564
Deferred income taxes	(50,349)	13,132
Remitted equity income	5,322	1,522
	15,205	191,060
Net proceeds from issue of preferred shares	82,070	—
Other (net)	1,023	1,603
	98,298	192,663
Disposition of Working Capital		
Expenditures for fixed assets	154,107	212,338
Long-term intercorporate investments (net)	9,141	(2,160)
Reduction of long-term debt	23,029	22,907
Purchase of preferred shares (Note 10)	3,603	3,604
Cash dividends (Note 10)	74,751	95,200
	264,631	331,889
Decrease in Working Capital	(166,333)	(139,226)
Working Capital at beginning of year	791,440	930,666
Working Capital at end of year	$ 625,107	$ 791,440

Changes in Working Capital

	1982	1981
Current Assets		
Cash	$ 3,387	$ 465
Short-term investments	(207,556)	(22,035)
Accounts receivable	99,852	(166,740)
Inventories	(103,928)	92,462
Prepaid expenses	1,092	409
Increase (Decrease) in Current Assets	(207,153)	(95,439)
Current Liabilities		
Notes payable	36,934	—
Accounts payable and accrued	(52,400)	43,764
Income and other taxes	(17,044)	(3,890)
Cash dividends payable	(8,118)	1,511
Long-term debt due within one year	(192)	2,402
Increase (Decrease) in Current Liabilities	(40,820)	43,787
Decrease in Working Capital	$ (166,333)	$ (139,226)

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Notes to Consolidated Financial Statements

December 31, 1982

1. Summary of Significant Accounting Policies

Principles of Consolidation The consolidated financial statements include the accounts of Stelco Inc. and its subsidiaries, all of which are wholly owned. Also included are the Corporation's pro-rata portions of the assets, liabilities and expenses of its unincorporated joint ventures. (See Note 4, also see page 29 for listing of Subsidiary Companies and Unincorporated Joint Ventures.)

Corporate joint ventures and partnerships, in all of which the Corporation has an interest of 50% or less, are accounted for by the equity method. (See Note 4, also see page 29 for listing of Corporate Joint Ventures and Partnerships.)

Foreign Currencies Current assets and liabilities originating in foreign currencies are translated at year end exchange rates. All other assets and liabilities originating in foreign currencies are translated at rates prevailing when the assets were acquired or the liabilities incurred. Income and expense items other than depreciation are translated at average rates prevailing during the year. The gains or losses resulting from these translations are reflected in the Consolidated Statement of Income.

Inventories Inventories are valued at the lowest of cost, replacement cost and net realizable value. Physical quantities are normally confirmed once a year by count and for certain raw materials by aerial survey.

Fixed Assets and Depreciation Fixed assets are recorded at historical cost and include construction in progress. Depreciation is provided using the straight-line method applied to the cost of the assets at rates based on their estimated useful life and beginning from the point when production commences. Construction in progress on which no depreciation has been recorded amounted to $355.0 million ($401.1 million at December 31, 1981). The following annual depreciation rates are in effect:

Buildings	2½ to 5%
Equipment	6 to 7½%
Automotive and mobile equipment	10 to 20%
Raw material plants and properties	4½ to 5%

Research and Development Expenditures for research and development are expensed as incurred.

Interest The interest cost of financing both working capital and capital expenditures is expensed as incurred.

Income Taxes Income taxes are provided on the tax allocation basis, and the resultant deferred income taxes are due principally to claiming depreciation for tax purposes in excess of straight-line depreciation. Investment tax credits are recorded by the "flow-through" method which recognizes such credits in the year in which they are claimed for tax purposes by a reduction of income taxes expense.

Net Income Per Common Share Net income (loss) per common share is computed on the basis of net income (loss) for the year, less prescribed dividends on the preferred shares, divided by the weighted average of total Series A and Series B Convertible Common Shares outstanding during the year. Provided the effect is not antidilutive, fully diluted net income per common share is computed by:

(i) adding back such dividends on the convertible preferred shares to earnings available for common shares and
(ii) dividing by the weighted average of total Series A and Series B Convertible Common Shares outstanding during the year (assuming that all convertible preferred shares outstanding at the end of the year were converted into Series A Convertible Common Shares at the earliest date at which the preferred shares were outstanding during the year).

2. Inventories

	1982 (in thousands)	1981 (in thousands)
Raw materials and supplies	**$ 363,129**	$ 473,786
Finished and semi-finished products	**327,310**	320,581
	$ 690,439	$ 794,367

3. Fixed Assets

	1982 (in thousands)	1981 (in thousands)
Raw material plants and properties, at cost	**$ 272,854**	$ 270,926
Manufacturing plants and properties, at cost	**2,577,607**	2,429,109
	2,850,461	2,700,035
Less accumulated depreciation	**1,162,987**	1,065,107
	$1,687,474	$1,634,928

4. Long-term Intercorporate Investments and Related Commitments

(a) Investments

	1982 (in thousands)	1981 (in thousands)
Corporate joint ventures and partnerships, at equity	**$ 68,276**	$ 64,451
Portfolio investments, at cost (quoted market value 1982 — $15.9 million, 1981 — $21.8 million)	**10,258**	10,264
	$ 78,534	$ 74,715

(b) Joint Ventures and Partnerships

Substantially, the joint ventures and partnerships are an integral part of steel operations and exist to provide raw materials, certain finishing operations and some administrative services. Accordingly, to avoid duplication in the disclosure of sales, such transactions between the Corporation and the joint ventures and partnerships are accounted for in the Consolidated Statement of Income by:

(i) Including the cost of materials, operations and services provided by the joint ventures and partnerships in "Cost of sales" or "Administrative" expense as appropriate.

(ii) Disclosing the Corporation's share of the annual income (loss) from corporate joint ventures and partnerships as a separate item of "Revenue". (During the year a corporate joint venture issued treasury shares and as a result, the Corporation's share of this corporate joint venture's equity increased by $2,712,000 which is included in "Revenue".)

The following is a summary of the Corporation's proportionate share of the financial position of the joint ventures and partnerships:

	Unincorporated Joint Ventures	Corporate Joint Ventures and Partnerships	1982 (in thousands) Total	1981 (in thousands) Total
Assets	**$ 73,530**	**$ 224,650**	**$ 298,180**	$ 307,040
Liabilities	**9,216**	**156,374**	**165,590**	176,032
Equity	**$ 64,314**	**$ 68,276**	**$ 132,590**	$ 131,008

Included in the liabilities of the corporate joint ventures and partnerships is $97.0 million of long-term debt against which certain assets relating to those entities have been pledged.

(c) Commitments

The Corporation, as a participant in certain of the corporate joint ventures and partnerships, is entitled to receive its proportionate share of coal and iron ore produced and is committed to pay its share of their costs, including minimum charges for principal and interest to cover the servicing of their long-term debt. The Corporation's share of such minimum charges averages US $10 million annually to 1996.

5. Long-term Debt

	1982 (in thousands)	1981 (in thousands)
5⅞% sinking fund debentures due May 1, 1990	**$ 32,617**	$ 33,815
9¼% sinking fund debentures due November 1, 1990	**49,323**	50,809
10⅞% sinking fund debentures due September 15, 1994	**56,426**	59,486
9¾% sinking fund debentures due April 1, 1995	**87,948**	92,103
10¼% sinking fund debentures due April 30, 1996	**92,294**	96,282
10% notes due October 15, 1987 (1982 — US $11 million, 1981 — US $12 million)	**11,103**	12,392
10¾% sinking fund notes due November 20, 1995 (1982 — US $108 million, 1981 — US $117 million)	**111,190**	119,235
13½% sinking fund debentures due October 1, 2000	**110,000**	110,000
	550,901	574,122
Less amount due within one year, net of prepayments	**15,867**	16,059
	$ 535,034	$ 558,063

After allowing for prepayments, annual sinking fund and other repayments over the next five years amount to $15.9 million in 1983, $24.1 million in 1984, $31.2 million in 1985, $31.2 million in 1986 and $31.2 million in 1987.

Translation of the long-term debt payable in United States funds at December 31 rates of exchange would increase the long-term debt by $24.0 million for 1982 and $21.0 million for 1981. This is not necessarily indicative of the amount which will be repaid when the obligations are retired.

6. Capital Programs

The estimated cost to complete approved capital programs is $115 million of which $90 million will be spent over a period of three years and the remaining $25 million is under review. The $115 million includes an estimated amount of $20 million to cover inflation in construction costs and other contingencies.

7. Retirement Plans

Pension costs charged against income in the year under the Corporation's pension plans include payments made to trust funds for current and past service requirements as determined by an independent actuary. Unfunded past service costs in respect of pensions ultimately payable to the present employees are estimated to be $260 million at December 31, 1982. This amount is being funded over periods not exceeding fifteen years.

8. Lease Commitments

Capital Leases At December 31, 1982, the Corporation had no significant capital lease commitments.

Operating Leases Future minimum rental payments required under operating leases that have initial or remaining lease terms in excess of one year at December 31, 1982 are:

	(in thousands)
1983	**$ 7,534**
1984	**6,214**
1985	**6,107**
1986	**5,440**
1987	**4,780**
Subsequent to 1987	**44,625**
Total	**$74,700**

9. Segmented Information

The Corporation operates exclusively as a vertically integrated producer of a wide range of steel products which is its only line of business and dominant segment. Export sales of domestic production to foreign countries amounted to $492 million in 1982 ($344 million in 1981).

10. Capital Stock and Dividends

(a) Under the Canada Business Corporations Act the Corporation is authorized to issue in series unlimited numbers of Preferred Shares and Common Shares without nominal or par value.

(b) Preferred Shares

	1982 Number of Shares	1982 Stated Capital (in thousands)	1981 Number of Shares	1981 Stated Capital (in thousands)
Outstanding — Series A	**8,000,000**	**$200,000**	8,000,000	$200,000
— Series B	**1,860,950**	**46,524**	1,922,300	48,058
— Convertible Series C	**5,935,104**	**148,377**	5,935,170	148,379
— Series D	**4,224,000**	**105,600**	4,312,000	107,800
— Series E	**3,400,000**	**85,000**	—	—
	23,420,054	**$585,501**	20,169,470	$504,237

Series A

These shares are entitled to a cumulative floating rate dividend, calculated and payable on a quarterly basis. The rate equals the sum of 1¼% and one-half the median Canadian bank prime rate charged by certain Canadian chartered banks.

The shares are redeemable on or after May 1, 1980 at $25.75 per share, reducing by $0.1875 annually on May 1, to $25.00 per share.

The shares are retractable at $25.00 per share at the holder's option, on May 1 in each of the years 1987, 1992 and 1997.

Series B

These shares are entitled to a fixed cumulative dividend at the rate of $1.94 per share annually, payable in equal quarterly instalments.

The shares are redeemable on or after November 1, 1984 at $26.25 per share, reducing by $0.25 annually on November 1, to $25.00 per share.

On November 1 each year, the Corporation is required to purchase at $25.00 per share 61,350 Series B Preferred Shares, if tendered.

On November 1, 1982, 61,350 shares with a stated capital of $1,533,750 were tendered and purchased for a total consideration of $1,533,750 and were cancelled.

10. (continued)

Convertible Series C

These shares are convertible into Series A Convertible Common Shares of the Corporation at any time on or before April 30, 1990, at a conversion price of $33.75 per share, subject to adjustment in certain events. The 5,935,104 shares with a stated capital of $148,377,600 outstanding at December 31, 1982, were convertible at the option of the holders into 4,396,373 Series A Convertible Common Shares.

The shares are entitled to a fixed cumulative dividend at the rate of $1.94 per share annually, payable in equal quarterly instalments.

The shares are redeemable at $26.25 per share on and after May 1, 1983 and prior to May 1, 1985, only if the weighted average price at which the Series A Convertible Common Shares traded in a specified period was not less than 125% of the conversion price then in effect. The shares are redeemable on or after May 1, 1985 at $26.25 per share, reducing by $0.25 annually on May 1, to $25.00 per share.

Commencing July 1, 1990, the Corporation is required to make all reasonable efforts to purchase during each calendar quarter, at a price not exceeding $25.00 per share plus unpaid dividends and costs of purchase, 1% of the number of these shares outstanding on April 30, 1990. The resulting annual obligation expires December 31 in each year.

During the year 66 shares with a stated capital of $1,650 were converted into 48 Series A Convertible Common Shares.

Series D

These shares are entitled to a fixed cumulative dividend at the rate of $2.50 per share annually, payable in equal quarterly instalments.

The shares are redeemable on and after November 1, 1985 at $26.00 per share, reducing by $0.20 annually on November 1, to $25.00 per share.

The shares are retractable at the option of the holder on November 1, 1985 and 1990 at a price of $25.00 per share.

The Corporation may elect in 1985 and 1990 to create further series of Preferred Shares ("1985 Series" and "1990 Series") into which the Preferred Shares Series D would be convertible on a share-for-share basis on and after the retraction date and having the same attributes in all material respects as the Preferred Shares Series D except that the dividend rate may be increased effective November 1, 1985 and increased or decreased effective November 1, 1990 and, in either case, the redemption price may be increased and a further non-call period may be provided.

During each calendar quarter the Corporation is required to make all reasonable efforts to purchase, at a price not exceeding $25.00 per share plus costs of purchase:

(i) from January 1, 1981 to December 31, 1985, 22,000 Preferred Shares Series D;
(ii) from January 1, 1986 to December 31, 1990, 0.75% of the number of Preferred Shares Series D outstanding at the close of business on November 1, 1985; and
(iii) commencing January 1, 1991, 1.25% of the number of Preferred Shares Series D outstanding at close of business on November 1, 1990.

This purchase obligation is cumulative only within each calendar year, and would attach equally to shares of the 1985 Series and the 1990 Series as the case may be.

During the year 88,000 shares with a stated capital of $2,200,000 were purchased for a total consideration of $2,068,883 and were cancelled. The resulting difference of $131,117 is included in retained earnings.

Series E

On August 10, 1982, 3,400,000 Preferred Shares Series E were issued for cash.

These shares are entitled to a fixed cumulative dividend at the rate of $3.625 per share annually, payable in equal quarterly instalments.

The shares are redeemable on and after August 1, 1988 at $26.20 per share, reducing by $0.30 annually on August 1, to $25.00 per share.

The shares are retractable at the option of the holder on August 1, 1988 at a price of $25.00 per share.

The Corporation may elect on or before June 17, 1988 to create a further series of Preferred Shares into which the Preferred Shares Series E would be convertible on a share-for-share basis during a conversion period commencing no later than the retraction date and ending no earlier than six months after the retraction date (subject to prior redemption).

During each calendar quarter the Corporation is required to make all reasonable efforts to purchase, at a price not exceeding $25.00 per share plus costs of purchase:

(i) from October 1, 1982 to September 30, 1988, 17,000 Preferred Shares Series E; and
(ii) commencing October 1, 1988, 1% of the number of Preferred Shares Series E outstanding at the close of business on September 30, 1988.

This purchase obligation is cumulative only within each calendar year.

During the year no shares were purchased.

10. (continued)

(c) Common Shares

	1982	1981
Stated Capital (in thousands)	**$144,467**	$142,925
	Number of Shares	Number of Shares
Outstanding — Series A Convertible	**23,676,416**	23,774,031
— Series B Convertible	**1,166,802**	1,006,164
	24,843,218	24,780,195

Series A and Series B

The Convertible Common Shares of each series are voting, convertible into one another on a share-for-share basis and rank equally in all respects except that dividends on the Series B Convertible Common Shares may be payable by way of a stock dividend in Series B Convertible Common Shares in accordance with the conditions attaching to such shares and dividends on the Series A Convertible Common Shares are payable in cash. During the year, 63,221 Series B Shares were issued in payment of stock dividends. Under terms of the issue, certain fractional Series B Shares with a stated capital of $5,988 and equivalent to 246 whole shares were purchased and cancelled.

(d) Dividends

Dividends declared, including extra distributions on common shares, consisted of the following:

	1982 (in thousands)	1981 (in thousands)
Preferred Shares		
Series A	**$19,401**	$21,442
(per share 1982 — $2.42515, 1981 — $2.68029)		
Series B	**3,700**	3,819
(per share 1982 — $1.94, 1981 — $1.94)		
Convertible Series C	**11,514**	11,514
(per share 1982 — $1.94, 1981 — $1.94)		
Series D	**10,642**	10,877
(per share 1982 — $2.50, 1981 — $2.50)		
Series E	**5,861**	—
(per share 1982 — $1.72385)		
	51,118	47,652
Common Shares		
(per share 1982 — $1.00, 1981 — $2.00)		
Series A	**23,633**	47,548
Series B (stock dividend)	**1,188**	1,979
	24,821	49,527
	$75,939	$97,179

11. Related Party Transactions

Related party transactions occuring during the years 1982 and 1981 and balances outstanding at December 31 both resulting from transactions with various entities recorded as long-term intercorporate investments (see Note 4(a).) are as follows:

	1982 (in thousands)	1981 (in thousands)
(a) During the year		
Materials and services purchased	**$ 89,843**	$145,732
Capital advances (repayments)	**10,095**	(703)
Dividends and interest received	**2,917**	4,813
Repayment of demand notes	**200**	1,375
(b) At December 31		
Capital advances	**$ 51,987**	$ 41,892
Accounts receivable	**26,094**	13,105
Demand notes receivable	**6,300**	6,500

The corporate joint ventures and partnerships, which are accounted for on an equity basis, exist to provide certain raw materials, finishing operations and administrative services. (See also Note 4.)

THORNE RIDDELL
Chartered Accountants

To The Shareholders
Stelco Inc.

We have examined the consolidated statement of financial position of Stelco Inc. at December 31, 1982 and the consolidated statements of income and retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the corporation at December 31, 1982 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Thorne Riddell

Toronto, Canada
February 9, 1983

Ten Year Statistical Summary

Dollars in millions except as indicated*

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		1982	1981[1]	1980	1979	1978	1977	1976	1975	1974	1973
Operations (thousands of net tons)											
Raw steel produced		**4,592**	4,454	6,278	5,862	5,533	5,640	5,724	5,396	5,542	5,723
Total raw steel processed (including purchases)		**4,667**	4,996	6,109	6,306	6,199	5,490	5,669	5,263	5,837	6,035
Steel shipments		**3,575**	3,804	4,529	4,553	4,466	3,995	4,028	3,706	4,078	4,204
Income and Related Data											
Sales	$	**2,020.3**	2,173.8	2,228.6	2,091.2	1,775.7	1,444.1	1,359.8	1,201.8	1,133.2	937.7
Administrative and selling	$	**129.2**	120.3	111.0	98.7	88.5	81.8	75.2	66.2	57.5	46.9
Depreciation	$	**101.0**	93.6	70.3	60.5	56.7	55.1	54.9	51.4	52.1	46.7
Interest on long-term debt	$	**63.6**	65.4	55.3	52.5	52.5	51.4	46.8	24.2	10.2	8.2
Income taxes	$	**(64.8)**	17.8	39.5	62.0	39.3	1.6	17.0	36.4	57.8	56.6
Net income (loss)	$	**(40.8)**	82.8	132.2	156.9	111.9	81.9	77.3	82.6	110.9	87.7
Per common share[2] —	*$	**(3.69)**	1.45	4.05	5.74	4.07	3.02	3.13	3.35	4.50	3.56
— fully diluted	*$	**N/A**	N/A	3.88	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Return on sales	%	**(2.0)**	3.8	5.9	7.5	6.3	5.7	5.7	6.9	9.8	9.4
Return on average investment[3]	%	**(0.4)**	4.6	6.9	9.1	7.3	6.3	6.7	7.4	10.8	9.7
Return on average common shareholders' equity[2]	%	**(9.3)**	3.4	9.7	14.7	11.3	8.8	9.5	10.7	15.5	13.5
Dividends declared — preferred	$	**51.1**	47.7	34.0	15.4	11.5	8.2	–	–	–	–
— common	$	**24.8**	49.5	49.4	49.4	43.2	42.0	42.0	42.0	38.2	32.0
Per common share	*$	**1.00**	2.00	2.00	2.00	1.75	1.70	1.70	1.70	1.55	1.30
Earnings reinvested in (withdrawn from) the business	$	**(116.7)**	(14.4)	48.8	92.0	57.2	31.7	35.3	40.6	72.7	55.7
Capital Expenditures	$	**163.2**	210.2	191.7	204.0	145.3	144.6	172.5	232.8	135.5	116.5
Financial Position, year end											
Working capital	$	**625.1**	791.4	930.7	617.1	593.6	603.3	457.5	380.1	301.1	218.5
Fixed assets — net	$	**1,687.5**	1,634.9	1,517.3	1,397.4	1,265.7	1,186.1	1,102.0	990.5	812.1	734.1
Long-term debt	$	**535.0**	558.1	581.0	490.4	496.9	501.3	504.4	361.1	165.5	103.8
Preferred shareholders' equity	$	**585.5**	504.2	508.0	233.1	200.0	200.0	–	–	–	–
Common shareholders' equity	$	**925.5**	1,042.5	1,054.7	1,009.6	917.7	860.3	829.3	793.9	752.1	679.0
Per common share	*$	**37.25**	42.07	42.66	40.85	37.13	34.83	33.57	32.14	30.50	27.56
Employment											
Average number of employees		**22,104**	26,263	25,094	25,032	23,712	22,942	22,691	23,192	23,251	22,580
Total employment costs	$	**799.7**	674.6	687.9	641.6	559.0	495.0	459.0	401.9	350.6	308.2
Employees' average weekly earnings[4]	*$	**574.71**	492.25	443.94	408.75	374.98	343.67	320.90	280.85	249.15	224.63
Number of Common Shareholders, year end		**29,551**	32,277	36,040	40,495	38,147	36,408	36,501	37,864	39,086	39,331

(1) 1981 operations were interrupted by strikes, 125 days at Hilton Works and for various periods at other locations.
(2) After preferred dividends in 1982 to 1977 inclusive. (See Note 1 on page 21 for explanation of computation of net income (loss) per common share.)
(3) After adding back interest on long-term debt (net of tax) to net income (loss).
(4) Excludes the cost of supplementary employment benefits.

Directors and Officers

At December 31, 1982

Directors

*J.D. Allan, Toronto
President and Chief Operating Officer of the Corporation

‡Alex E. Barron, Toronto
President, Canadian General Investments Limited

*A. Jean de Grandpré, O.C., Q.C., Montreal
Chairman of the Board and Chief Executive Officer, Bell Canada

‡Thomas M. Galt, Toronto
Chairman and Chief Executive Officer, Sun Life Assurance Company of Canada

*J. Douglas Gibson, O.B.E., Toronto
Corporate Director

*J. Peter Gordon, Toronto
Chairman of the Board and Chief Executive Officer of the Corporation

*A.J. MacIntosh, Q.C., Toronto
Partner, Messrs. Blake, Cassels & Graydon, Barristers & Solicitors

†Senator The Hon. Ernest C. Manning, P.C., C.C. Edmonton
Chairman, Manning Consultants Limited

Frederick C. Mannix, Calgary
Corporate Director

‡†William F. McLean, Toronto
Corporate Director

*†D.R. McMaster, Q.C., Montreal
Counsel, Messrs. McMaster Meighen, Barristers & Solicitors

Lucien G. Rolland, Montreal
President and Chief Executive Officer, Rolland inc.

Henry G. Thode, C.C., Ph.D., F.R.S. Hamilton
Professor Emeritus, McMaster University

†Kenneth A. White, C.D., Toronto
Chairman of the Board, Royal Trustco Limited

*William H. Young, Hamilton
President, The Hamilton Group Limited

*Member — Executive Committee
†Member — Audit Committee
‡Member — Compensation and Manpower Resources Committee

Executive Officers

J.P. Gordon
Chairman of the Board and Chief Executive Officer

J.D. Allan
President and Chief Operating Officer

G.H.G. Layt
Senior Vice-President

G.W.R. Bowlby
Vice-President, Marketing

A. J. Harris
Vice-President, Engineering, Research and Purchasing

R.E. Heneault
Vice-President, Administration

J.E. Hood
Vice-President, Operations

H.J.M. Watson
Vice-President, Finance

J.W. Younger, Q.C.
Vice-President, Secretary and General Counsel

Vice-Presidents and Other Officers

W.C. Ashcroft
Assistant Treasurer

G. Binnie
Comptroller

K. Coles
Vice-President — Manufacturing

W.A. Darby
Assistant Comptroller — Corporate Accounting

F.A. Hoyle
Vice-President — Manufacturing

L.M. Killaly
Assistant Secretary

P.D. Matthews
Treasurer

A.G. Northcott
Assistant Comptroller — Works Accounting

D.A. Woodward
Vice-President — Sales

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Head Office
Royal Trust Tower, Toronto-Dominion Centre,
Toronto, Ontario, M5K 1J4.

General Offices
Hamilton, Ontario
Montreal, Quebec — Eastern Region
Edmonton, Alberta — Western Region

Sales Offices
Hamilton, Ontario
Montreal, Quebec
Calgary, Alberta
Edmonton, Alberta
Quebec, Quebec
Saint John, New Brunswick
St. John's, Newfoundland
Windsor, Ontario
Winnipeg, Manitoba

Plants
Hamilton, Ontario
- Hilton Works
- Canada Works
- Canadian Drawn Works
- Frost Works
- Parkdale Works

Beachville, Ontario
- Chemical Lime Works

Brantford, Ontario
- Brantford Works

Burlington, Ontario
- Burlington Works

Gananoque, Ontario
- Gananoque Works

Nanticoke, Ontario
- Lake Erie Works

Red Lake, Ontario
- The Griffith Mine

Toronto, Ontario
- Swansea Works

Welland, Ontario
- Page-Hersey Works
- Welland Tube Works

Contrecoeur, Quebec
- McMaster Works

Lachine, Quebec
- Dominion Works

Montreal, Quebec
- Notre Dame Works
- St. Henry Works

Camrose, Alberta
- Camrose Works

Edmonton, Alberta
- Stelco Edmonton, Steel Works
- Stelco Edmonton, Finishing Works

Regina, Saskatchewan
- Stelco Fabricators Ltd.

Research Centre
Burlington, Ontario

Subsidiary Companies, wholly owned
Stelco Fabricators Ltd., Regina, Sask.
Frost Steel and Wire Company, Limited, Hamilton, Ont.
Clôture Frost Inc. — Frost Fence Inc., Montreal, Que.
Durastal Installations Limitée, Lachine, Que.
The Steel Company of Canada, Limited, Toronto, Ont.
Stelco Technical Services Limited, Hamilton, Ont.
Stelco Coal Holding Company, Cleveland, Ohio
Stelco Coal Company, Pittsburgh, Pa.
Pikeville Coal Co., Louisville, Ky. (Chisholm Mine)
Kanawha Coal Company, Ashford, W. Va. (Madison Mine)
Ontario Eveleth Company, Minneapolis, Minn.
Ontario Hibbing Company, Minneapolis, Minn.
Stelco Erie Corporation, Minneapolis, Minn.
Stelco Nederland B.V., Amsterdam, The Netherlands
Stelco S.A., Geneva, Switzerland
The Steel Company of Canada (U.K.), Limited, London, England
Can Hamilton Trading Limited, London, England
Ubbelohde-Stelco S.A.C.I. y de R., Buenos Aires, Argentina
Stelco de Venezuela, S.R.L., Caracas, Venezuela

Unincorporated Joint Ventures

	% Owned
Wabush Mines, Nfld. & Que.	25.6
Hibbing Taconite Company, Minn.	6.7
Elk River Coal Project, B.C.	25.0

Corporate Joint Ventures and Partnerships

	% Owned
Iron Ore	
Tilden Iron Ore Partnership, Mich.	15.6
Erie Mining Company, Minn.	10.0
Eveleth Expansion Company, Minn.	23.5
Ontario Iron Company, Minn.	10.0
Coal	
Mathies Coal Company, Pa.	13.3
Beckley Coal Mining Company, W. Va.	12.5
Olga Coal Company, W. Va.	10.0
Other	
Baycoat Limited, Ont.	50.0
Canada Systems Group Limited, Ont.	25.0
Torcad Limited, Ont.	50.0
Fers et Métaux Recyclés Ltée, Que.	50.0
Arnaud Railway Company, Que.	25.6
Wabush Lake Railway Company, Limited, Nfld.	25.6
Knoll Lake Minerals Limited, Nfld.	14.9
Northern Land Company Limited, Nfld.	12.8
Twin Falls Power Corporation, Limited, Nfld.	4.4

Registrar and Transfer Agent
NATIONAL TRUST COMPANY, LIMITED
Toronto, Montreal, Hamilton, Winnipeg, Edmonton and Vancouver; and its agent Royal Trust Company in Halifax and Regina.

Annual Meeting
The Annual Meeting of the Shareholders of the Corporation will be held at Commerce Hall (concourse level), Commerce Court West, in Toronto at 10:30 a.m., local time, on Monday, April 25, 1983.

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